Maryland Corporate Information Reporting And Combined Reporting

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Prior Introductions

- Combined Reporting bills introduced in every session from 2003 through 2007
  -Never made it out of committee

- Proponents – major revenue gain
- Opponents – major revenue loss
Fiscal Estimates

Department of Legislative Services (DLS)

2003 - $20 million to $150 million

2004 - $55 million based on MTC study

2005 - Unknown

2006 and 2007 - $25 million to $50 million
2007 Special Session

- Maryland faced budget deficit approaching $1.4 billion
- Substantial changes to income, sales, and other taxes were coming
- Administration’s proposals included combined reporting, estimated to raise $28 million in FY 2009
Senate Bill 2, 2007 Special Session

- Combined reporting did not pass, but corporate rate raised from 7% to 8.25%
- Established Maryland Business Tax Reform Commission
- Required corporate statistics of income report from the Comptroller
- Established corporate information reporting
SB 2 Information Reporting

Each corporation required to file an income tax return and which is a member of a corporate group was to file a report including:

- Group members
- Worldwide sales of each member
- Sales in Maryland of each member
- List of states in which any group member filed an income tax return
- Members of the group on combined or consolidated returns in each combined or consolidated state
SB 2 Information Reporting

Each publicly traded corporation doing business in the State was to file a report including:

- Identifying and ownership information
- Information used in preparing a MD tax return whether or not a MD tax return is required
- Why a return is not required and sales in the State and…
SB 2 Information Reporting

If a publicly traded corporation was a member of a group with worldwide gross receipts in excess of $100 million

- The above information for each group member, with or without nexus
- Members of the group and the difference in income tax that would be owed if required to use combined reporting
- The sales factor that would be used under throwback (of tangible goods only), and...
SB 2 Information Reporting

Publicly traded corporations that are member of a group with worldwide gross receipts in excess of $100 million (con’t)

- Amount and source of nonapportionable income, and state to which it was allocated if not MD
- Full-time equivalent employment for each of the four most recent tax years
- For US corporations, profits before tax as reported on 10-K
SB 2 Information Reporting

- Statements were to be
  - Subject to audit
  - Submitted electronically on a group basis

- Penalties for failure to file or filing falsely
  - $10,000 fine, and/or
  - Up to five years imprisonment, and
  - Publication of the name of and any penalty imposed on a corporation failing to file or filing an inaccurate statement
SB 2 Information Reporting

- Comptroller required to report to General Assembly December 1 of each year
  - Summary of information from corporate reports
  - Detailed analyses of characteristics of corporate taxpayers including historical data
  - Information provided by business category and various measures of size
- Entire regime very burdensome on both taxpayers and Comptroller
Bills were submitted to ease the burden of the reporting requirements

- Originally struck some of the requirements, and allowed a combined return from another state but reflecting Maryland apportionment factors to be submitted in lieu of the other requirements

- The Comptroller proposed amendments to further simplify the process, which were generally the only changes to the bills

- With the strong support of the Comptroller, business community and others, the bills passed
Amended Reporting Requirements

Essentially *pro forma* combined return with modest amount of supplementary information

- Throwback
- Sales to federal government
- Nonoperational income

- Penalties replaced with requirement that the Comptroller develop a penalty system

- Due date for report from Comptroller delayed until March 1
Implementation of SB 444 / HB 664

Intensive effort to implement the program in time for October 15 reporting deadline
- Immediately following the session, Comptroller’s staff began review of combined reporting
- Tax Alert distributed in June
- Regulations and draft “return” were developed in June, and circulated amongst the business community for comment in early July
- Return underwent substantial revisions
- Draft regulations posted and submitted to AELR
- Reporting system developed in late July
Electronic Reporting System

Tax Alert: Pro Forma CCR

The Comptroller of Maryland has issued a one-page tax alert stating that all corporations that are members of a corporate group and are subject to the Maryland corporate income tax must file pro forma combined income tax returns for the 2006 tax year by October 15, 2008. The law requires that reports be filed electronically. Pro forma combined income tax returns for tax years after 2006 are to be filed by the corporation's income tax extension due date for that year (October 15 for calendar year taxpayers). The disclosure requirement is in addition to regular Maryland corporation income tax filings.

File your Pro Forma CCR

Please log in to work with your CCR. If this is your first time please register (Note that you can log in using your bFile username and password.)

User Name: 
Password: 
Log In

Forgot Password Register

File for an Exemption

FEIN: 

Reason for Exemption:
- Insurer
- Regulated Investment Corporate Group
- Single Entity Corporation
- Other

Submit
Fields marked with a "*" are required fields.

Federal Employer Identification Number...

FEIN: *

Profile Information...

Entity Group Parent? □ Yes □ No
Entity Name: *

Tax Period Start Date: * Tax Year End Date: *
1/1/2006 12/31/2006

Save and add another entity with:

MD Nexus
No MD Nexus but MD Sales
No MD Nexus and No MD Sales
Add No More Entities

(For other options use the links at the top left of the page.)
## Adjustments for Intercompany Transactions

Fields marked with an "*" are required fields.

For the fields below please use whole dollar amount with no cents.

### Adjusted Income for All Entities in Unitary Group

<table>
<thead>
<tr>
<th>Income: *</th>
<th>Total Deductions: *</th>
<th>Prior Loss Carryover: *</th>
<th>Net Operating Loss: *</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>Special Deductions: *</td>
<td>Taxable Income: *</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$1,000</td>
<td>$1,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Adjusted Numerator for Entities with MD Nexus

<table>
<thead>
<tr>
<th>MD Receipts: *</th>
<th>MD Property: *</th>
<th>MD Payroll: *</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
</tbody>
</table>

### Adjusted Numerator for All Entities in Unitary Group

<table>
<thead>
<tr>
<th>MD Receipts: *</th>
<th>MD Property: *</th>
<th>MD Payroll: *</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
</tbody>
</table>

### Adjusted Denominator for All Entities in Unitary Group

<table>
<thead>
<tr>
<th>Total Receipts: *</th>
<th>Total Property: *</th>
<th>Total Payroll: *</th>
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<tbody>
<tr>
<td>$1,000</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
</tbody>
</table>

Save Adjustments for Intercompany Transactions
Choose To Submit Your Return To Complete Your 2006 Filing

I declare under the penalties of perjury that this report has been examined by me and to the best of my knowledge and belief is a true, correct and complete report.

Submit Your Report For Processing
Agency Wide Effort

- Bureau of Revenue Estimates (BRE) staff developed the information schematics incorporating feedback from stakeholders
- IT staff developed the secure browser based reporting system
- BRE and the Compliance division worked to identify entities that would be directly contacted for notice to file the pro forma return
- Corporate Auditors as Customer Service
Extension and Delinquency Efforts

The Joint Committee for Administrative, Executive, and Legislative Review extended the reporting deadline 45 days.

After new December 1, 2008 deadline, 14,700 letters were mailed to entities that may be subject to the requirements.

Over 1,200 reports were submitted after December 1.
Preliminary TY 2006 Report

- The reported data was downloaded to a Microsoft Access database and Excel was used to provide the analysis.
- 6,100 corporate groups, representing 96,400 separate entities.
- Variety of data issues.
Data Issues

- A large number of groups showed no intercompany transactions
- Other groups provided logically impossible data

- Contacted 3,860 of the 6,100 groups asking for clarification
- 2,316 responded with the remainder resolved through sensitivity analysis
Further System Refinement

- Eliminated the report sheet that asked for the group’s adjusted income and apportionment data

- Created a XML upload process
Result Caveats

- Results were point in time.
- Those results would likely change as corporations amended returns.
- Group industry classification was determined by the NAICS code of the group member with the largest worldwide payroll.
- Estimates were static.
The Results

Initial TY 2006:
- Joyce - $109 million
- Finnigan - $170 million

Revised TY 2006:
- Joyce - $144 million
- Finnigan - $197 million

Initial TY 2007
- Joyce - $92 million
- Finnigan - $144 million

Initial TY 2008
- Joyce - ($53.3 million)
- Finnigan - ($15.4 million)
<table>
<thead>
<tr>
<th>Industry</th>
<th>Winners</th>
<th></th>
<th>Losers</th>
<th></th>
<th>Total</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>#</td>
<td>$</td>
<td>#</td>
<td>$</td>
<td>#</td>
<td>$</td>
</tr>
<tr>
<td>Utilities</td>
<td>32</td>
<td>(17,198,450)</td>
<td>30</td>
<td>1,247,467</td>
<td>95</td>
<td>(15,950,983)</td>
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<tr>
<td>Information</td>
<td>107</td>
<td>(29,039,412)</td>
<td>89</td>
<td>22,907,291</td>
<td>336</td>
<td>(6,132,121)</td>
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<tr>
<td>Management of Companies</td>
<td>102</td>
<td>(11,980,304)</td>
<td>76</td>
<td>6,612,028</td>
<td>268</td>
<td>(5,368,276)</td>
</tr>
<tr>
<td>Retail</td>
<td>104</td>
<td>(5,281,976)</td>
<td>203</td>
<td>64,822,749</td>
<td>404</td>
<td>59,540,773</td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td>190</td>
<td>(16,086,195)</td>
<td>196</td>
<td>59,371,776</td>
<td>612</td>
<td>43,285,581</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>535</td>
<td>(32,350,605)</td>
<td>529</td>
<td>75,044,135</td>
<td>1,477</td>
<td>42,693,530</td>
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<tr>
<td>Total</td>
<td>2,058</td>
<td>(159,241,086)</td>
<td>2,134</td>
<td>303,370,381</td>
<td>6,284</td>
<td>144,129,295</td>
</tr>
</tbody>
</table>

TY 2006 Industry Analysis (Joyce)
## TY 2008 Industry Analysis (Joyce)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Winners</th>
<th></th>
<th>Losers</th>
<th></th>
<th>Total</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>#</td>
<td>$</td>
<td>#</td>
<td>$</td>
<td>#</td>
<td>$</td>
</tr>
<tr>
<td>Management of Companies</td>
<td>103</td>
<td>(51,132,283)</td>
<td>63</td>
<td>8,982,684</td>
<td>251</td>
<td>(42,149,599)</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>186</td>
<td>(45,983,754)</td>
<td>94</td>
<td>18,648,898</td>
<td>468</td>
<td>(27,334,857)</td>
</tr>
<tr>
<td>Utilities</td>
<td>29</td>
<td>(27,002,678)</td>
<td>12</td>
<td>1,156,467</td>
<td>56</td>
<td>(25,846,211)</td>
</tr>
<tr>
<td>Retail</td>
<td>118</td>
<td>(16,009,423)</td>
<td>78</td>
<td>30,822,585</td>
<td>285</td>
<td>14,813,162</td>
</tr>
<tr>
<td>Wholesale</td>
<td>139</td>
<td>(7,085,706)</td>
<td>108</td>
<td>18,494,651</td>
<td>329</td>
<td>11,406,945</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>480</td>
<td>(37,867,483)</td>
<td>277</td>
<td>48,323,905</td>
<td>1,078</td>
<td>10,456,422</td>
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<tr>
<td>Total</td>
<td>1,946</td>
<td>(260,511,425)</td>
<td>1,133</td>
<td>209,113,983</td>
<td>4,597</td>
<td>(51,397,442)</td>
</tr>
</tbody>
</table>


Reflections on Study

- Little framework or guidance related to combined reporting or group membership
- Accuracy of distributional impact
- Data issues
- Declining number of reports
Questions

Andrew Schaufele
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410-260-7450
Links

http://btrc.maryland.gov/default.asp

http://www.marylandtaxes.com/finances/revenue/combined.asp

http://business.marylandtaxes.com/taxinfo/requirements.asp

https://interactive.marylandtaxes.com/business/CCRStudy/Authenticatio